

Executive Summary

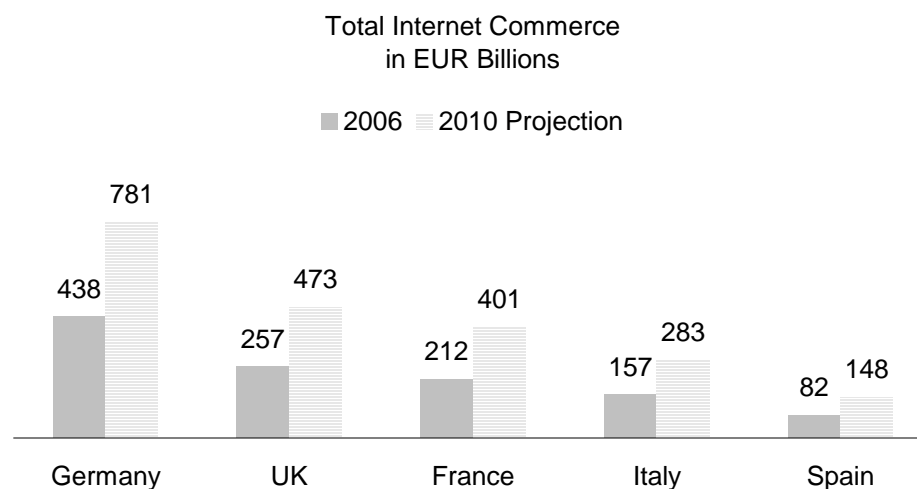
Germany is the leading e-commerce market in Europe: business worth a total of EUR 438.7 billion was conducted online in 2006, and EUR 779.8 billion is predicted for 2010. In 2006, over 30% of all goods and services traded online in Western Europe (EU 15 plus Norway and Switzerland) were sold in Germany, representing by far the largest market share of any Western European country.

Germany, the world's number one exporter, is the largest economy in the European Union and the third largest in the world. As Europe's most populous nation, Germany also has the largest number of Internet users, nearly 56 million people. These users generate one of western Europe's highest per capita revenue rates and contribute, alongside businesses, to the predicted 84% growth of e-commerce volume in Germany.

A study published in 2007 found the German wholesale trade to be well positioned in the international arena. None of the traditional distribution channels are seen as having huge development potential, so companies are turning to the Web, making an electronically based future become reality.

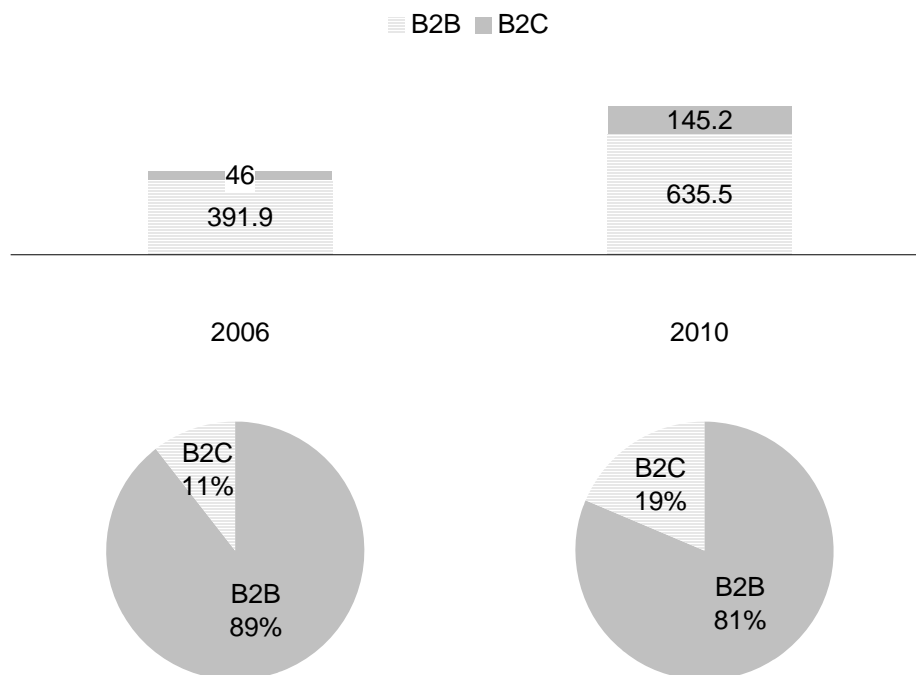
Market Highlights and Trends

Across Europe, broadband connections are steadily replacing dial-up connections, and WLANs are becoming increasingly popular. Germany is home to nearly 56 million Internet users, making the country the largest connected population in Europe, of whom 94.5% are using the medium to seek product information in 2007.



Source: European Information Technology Observatory 2007

German E-Commerce Breakdown B2B and B2C in EUR Billions



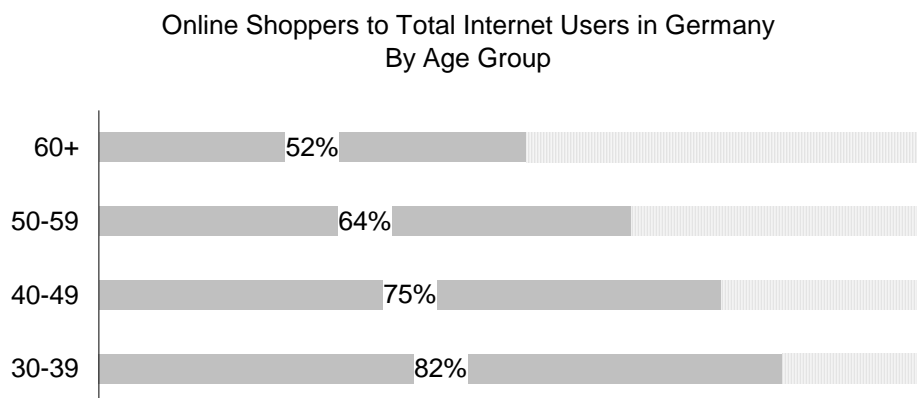
Source: European Information Technology Observatory 2007

German Online Shoppers

68% of Germans access the Internet at least once every month, nearly equally split between men and women. Of these individuals, the number making purchases online continues to rise steadily.

In Germany, as elsewhere, older people are less likely to shop online than the younger generations. However, of the Internet users over 60 years of age, more than half make online purchases.





Source: EuPD Research: E-Commerce 2006

Germans who spend money online prefer German online shops. They make use of the available options, of saving delivery addresses on merchants' websites and of viewing previous transactions, and they appreciate delivery tracking, though this is only available at about 27% of online shops.

Europeans tend to rely heavily on personal advice and recommendations—especially in Germany, where word-of-mouth is the most-cited influence leading to the decision to buy. This is evident in consumers' increasing participation in product ratings and reviews through portals specifically designed for sharing online shopping experiences. Hardly a negligible number, three-quarters of online shoppers reported reading these product assessments in 2007.

Although Germans most often learn of new products from friends, they show a comparatively stronger response to Web ads than do Americans or their own European neighbors. It must be noted, however, that the tendency is to return to advertised pages later rather than clicking directly on the ads themselves, thereby skewing estimations of their effectiveness. While traditional advertising media are standing their ground, the advertising industry is confident about the growth of online ads. They are predicted to break the 3% market share mark in 2007.

Germans, however, have a strong aversion to popups, telemarketing and junk email. These were identified as the forms of advertisement German consumers would most like to ban. Internet advertisers beware: the use of popups can unleash negative brand association. Floating ads are still generally seen as acceptable though – and should therefore be used sparingly in order to avoid evoking similar anger.

Insufficient descriptions or poor product presentations lead to enough frustration already: nearly half of German online shoppers have at least once abandoned a potential online purchase due to this single type of oversight. Potential transactions were also terminated because of shipping costs and unacceptably long page loading times. Further holding German e-commerce back is the population's reluctance to transmit credit card and banking information electronically: in 2005, 25% of all online customers reported having discontinued a purchase in order to avoid paying by credit card or allowing merchants to debit their accounts. This mentality is slowly changing however, since 60% of all transactions in Germany were paid for via account debits in 2006. The most favored payment method, preferred by 85% of Germans, is bank transfers from the familiarity of their own bank's website. The chargeback rate for German shoppers has risen slightly – though only by less than 0.5%. The average chargeback fee for electronic debits is just under 5%.

Germans tend to be very price-conscious and they maintain this tendency on the Internet. The price paid for a basket of 10 goods purchased online in Germany averages EUR 521, much lower than the European average of EUR 750. Purchases tend to be done in smaller batches, though: more than 43% of the online retail sales among German shoppers were worth less than EUR 10.

B2C

The 10 Most Popular Sites for German Online Shoppers in 2006

1.	eBay.de	Online auction and marketplace, new and used articles
2.	amazon.de	Online auction and marketplace, new and used articles
3.	tchibo.de	Frequently changing clothing, household items, and electronics
4.	otto.de	Mail order company offering of general to specialized goods
5.	weltbild.de	Publishing house and bookstore
6.	quelle.de	Mail order company, owned by Germany's Karstadt AG
7.	neckermann.de	Subsidiary of Karstadt AG, wide range of mail order products
8.	conrad.de	Mail order electronics
9.	buch.de	Online bookseller
10.	heine.de	Mail order subsidiary of Otto GmbH & Co KG

Source: ECIN
(Electronic Commerce Info Net)

In 2006, EUR 46 billion were exchanged in the B2C market, representing 11% of the Germany's total e-commerce volume.

German online shops that target consumers directly are subject to seasonal cycles, with November and December predictably having the highest revenues. Regardless of season, however, more and more people are venturing online and the Internet is gaining an ever-stronger influence in every phase of the buying process.

Best-selling online goods in Germany in 2006

1. Books
2. Event Tickets
3. Plane & Train Tickets
4. Hotel Bookings
5. Music CDs
6. Fashion & Shoes
7. Computer Hardware
8. Vacations, Trips
9. DVDs
10. Computer Software

In Germany, this influence is especially visible in online sales of IT products. Whether for big or small-ticket items, more and more consumers are reaching for the mouse when seeking purchasing advice.

An analysis of German computer enthusiasts of all ages revealed that price plays a major role in determining where various IT products are purchased. Sales of small-ticket items such as speakers, web cams, and wireless input devices are reasonably balanced between bricks-and-mortar stores and online shops. More expensive devices, however - laptops, desktops, monitors - are purchased 58% of the time via keyboard and mouse.

Source: German Association for the Digital Economy

Two principal factors influence this decision: store hours and expert advice. Consumers who choose the offline route place a high value on personalized in-store advice, which shows not as important for virtual shoppers, for whom freedom from closing times comes first. This group prizes quick, stress-free transactions, price comparisons, and larger selections.

Small, lightweight, expensive, brand name articles sell very good online in Germany. Specific solutions for various market segments that add value for customers can win business. Free shipping is one of these values for German consumers.

B2B

In 2006, EUR 392 billion were exchanged in Germany in the B2B sector. In contrast to B2C, business-to-business trade is unaffected by seasonal cycles and is predicted to grow steadily, reaching EUR 636 billion by 2010. Germany represents 31% of the entire western European online trade among businesses – by far the largest share of any country. Within Germany's borders, B2B accounted for an enormous 89% of online business transactions in 2005. This proportion is set to sink to 81% by 2010 due to the increasing attention paid to the B2C market.

Only 13% of German wholesalers make use of Internet marketplaces as distribution channels, though one of every two companies has a website on which the sales process can be initiated. This illustrates German wholesalers' preference for company websites to aggregated B2B portals for their online procurement. Among wholesalers, the traditional distribution channels still clearly dominate: nearly 72% of companies employ a field sales force, and about 61% market their products via telephone and mail advertising. Despite this apparent reluctance among B2B firms to embrace the online world, there is a clearly measurable trend toward internationalization. 56% of these same companies have expanded their territory in order to sell to other parts of Europe, and nearly 34% deliver outside the Continent.

A new trend in B2B communication, dubbed "e-detailing," makes use of the entertaining, interactive power of Adobe's Flash Player to educate business buyers about complex products. Companies are increasingly using this medium to complement their sales teams, saving on cost and reaching previously unreachable customers. GlaxoSmithKline, for example, has been using this method since 2005 to educate doctors who refuse visits from company representatives. Quite cost-effective, e-detailing is expanding in Germany and expected to spread from the pharmaceutical sector into others. Consultant firm Frost & Sullivan predicts 80% yearly growth, reaching \$194 million by 2008.

The German B2B sector is also discovering a second cost-optimizing tool: "Best Basket" from www.mercateo.de is a web portal enabling buyers to choose from the compiled catalogues of more than 200 suppliers. The first of its kind in the German-speaking world, this trade platform checks the competition upon checkout and compares offers of identical goods in order to optimize the price of the entire basket. The system takes minimum order quantities and shipping costs into account, and can be programmed to prioritize short delivery times, number of suppliers, or sales and return conditions.

Online Advertising in Germany

As with all highly developed countries with sophisticated legal systems, legal advice is highly recommended when entering the German market. One of the country's most important assets, the strong legal system, can nevertheless pose numerous obstacles to businesses unfamiliar with its challenges.

One such challenge is advertising. In Germany, businesses must make sure to comply with the strict consumer protection regulations prohibiting misleading advertising. Using the results of product tests is a powerful tool when reaching out to German consumers. Results from Stiftung Warentest, the country's respected consumer reports foundation, enjoy a high degree of trust and attention. This trust is precisely why specific rules have been established: consumers must be able to verify test results, tests must be current and sources must be cited. Consumers must see how many products were compared, and results must apply to the advertised product—this applies even for products with similar construction or for a further developed version of the same model. Lastly, test results must retain their original wording in order to avoid any alteration of the message.

Advertising discounted prices is generally allowed, provided that they are not "reduced" from prices that have been artificially inflated. Unrealistically high prices serving only to make a current offer look more attractive are prohibited.

The German Telemedia Law now applies to email marketing. Accordingly, unsolicited email advertisements must not contain deceiving headlines or subject lines: recipients must be able to immediately recognize commercial mailings in their inbox. Penalties up to EUR 50,000 can legally be levied for noncompliance.

Data Protection and Safe Harbor

Online merchants are permitted to use customer information only for the execution of a sale. German consumer protection publications encourage online shoppers to pay attention to official seals of approval on websites, since endorsement from the TÜV (German Technical Inspection Agency) assures buyers accurately quoted prices and conditions, as well as data security.

The European Commission's Directive on Data Protection went into effect in October 1998 to prohibit the transfer of personal data to non-EU nations that do not meet the European "adequacy" standard for privacy protection. Although the United States and the European Union share the goal of enhancing privacy protection for their citizens, the United States takes a different approach to privacy from that taken by the European Union. In order to bridge these different privacy approaches and streamline the compliance process for U.S. organizations, the U.S. Department of Commerce has developed the Safe Harbor Framework in conjunction with the European Commission. Information to help organizations evaluate and join the Safe Harbor can be found at www.export.gov/safeharbor/.

E-Tailers in Germany

Germany's Distance Selling Law regulates much of the country's online retailing. Sellers are required to provide their names, addresses, and telephone numbers, as well as publish accurate product descriptions and prices that include VAT, service charges, and shipping costs. Purchase confirmations must also contain the product descriptions, order numbers, and prices charged. Duties and customs may be added to orders from outside the EU.

Detailed regulations apply to shipping and return policies as well. German e-tailers legally have 30 days to deliver, unless a different timeframe is specified. Should goods become broken or lost during delivery, the burden of proof generally falls on the seller. German retailers are also required by law to accept returned products up to 14 days after the customer accepts delivery. Shipping costs for returns are the customer's responsibility for products worth up to EUR 40, above which the obligation passes to the retailer. Money for returned goods must be refunded within 30 days. Otherwise, interest charges can be forced upon the seller.

Value-Added Tax (VAT)

The European Union operates on a system of value-added tax, a tax on consumer spending collected on goods and services. U.S. business must pay careful attention to the various regulations that apply when doing business within the EU. Detailed explanations can be found in the two following reports, also published by the U.S. Commercial Service.

- What U.S. Companies Need to Know about European Union VAT
http://www.buyusainfo.net/docs/x_6850146.pdf
- How EU VAT Rules Impact U.S. Based Suppliers of Online Content, Software, and Service
http://www.buyusainfo.net/docs/x_7192971.pdf

Security and Payment

A 2007 issue of a German E-Commerce magazine emphasized the need for caution when submitting electronic bills, citing a case in which the lack of a legally valid electronic signature on an emailed PDF bill led to two lawsuits. Any company performing electronic B2B billing is advised to procure an adequate signature as soon as possible.

B2C sales in Germany require a slightly stricter attention to terms and conditions than B2B sales. When selling to consumers, the terms and conditions (abbreviated "AGB" in German) must be directly linked from the checkout form, on which acceptance must be indicated by a checkbox before the transaction may be completed. Business customers must also be advised that terms and conditions apply, although no direct link or acceptance checkboxes are required: it suffices to mention that their full text can be found at the company's online store and that acceptance may be assumed through binding action.

Considering these potential challenges, legal advice is strongly recommended when entering the German market.

Market Outlook

The world's third-largest economy is experiencing an economic upturn, setting the stage for Germany to further fortify its leading role in Europe's expansion of e-commerce. In the heart of Europe, a first-class infrastructure combined with a strong legal system makes Germany the optimal environment and location for establishing a foothold to reach the 494 million consumers within the EU, the largest economic entity on Earth.

German Business is discovering the benefits of the Web. Information is continually more available, and web portals, such as the above-mentioned www.mercateo.de, are intensifying competition. These electronic marketplaces are gaining significance in e-commerce and will continue to open up opportunities for companies wishing to break into the German market.

In 2006, Germany accounted for 31% of all online business-to-business transactions in Western Europe. Because so much is happening online, the Safe Harbor Framework has been created to bridge the differing privacy approaches taken by the U.S. and the EU, promoting future harmony between businesses on both sides of the Atlantic.

For consumers, the Internet is also exerting an ever-stronger influence on the buying process, visible in increasing product information searches, a gradually lessening reluctance to transmit payment information electronically, and participation in ratings and reviews. Going forward, experts are calling for virtual storekeepers to better recognize German shoppers' penchant for sharing online purchasing experiences with others.

Companies in Germany are becoming increasingly international. Just as business everywhere, Germany is expanding its reach to other parts of Europe and to the entire world. For U.S. companies participating in globalization, Germany's economy, legal system, and technological infrastructure come together as a stable platform for expansion into Europe and beyond.

For More Information

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